MESSAGE TO SHAREHOLDERS

Pine Cliff Energy Ltd. is pleased to report its results for the third quarter of 2014, the most active quarter in Pine Cliff's history. During Q3 2014, we attained record average daily sales volumes, announced two accretive acquisitions that together, will more than double our combined asset production base. At the same time we maintained a strong balance sheet through the issuance of common shares allowing the Company to pursue additional accretive transactions.

Highlights during the third quarter are as follows:

- Closed a $33.5 million acquisition of liquids rich natural gas assets in the Carrot Creek / Edson area of Alberta and announced, subsequent to quarter-end, the closing of a $100.0 million acquisition of certain natural gas assets in Southern Alberta and Southern Saskatchewan;
- Attained record average daily sales volumes of 6,810 Boe per day as compared to 6,371 Boe per day in the second quarter of 2014. Decreased production declines by operational improvements and production acquired through the Carrot Creek/Edson asset acquisition;
- Raised $60.1 million through a common share issuance at $2.05 per share;
- Generated quarterly funds flow from operations of $8.1 million, a decrease of 12% as compared to the second quarter 2014 funds flow from operations of $9.2 million. This decrease is mainly a result of a lower natural gas price in the third quarter, partially offset by higher average sales volumes;
- Realized quarterly earnings of $0.9 million (second quarter of 2014 – earnings of $2.3 million);
- Subsequent to quarter end, increased Pine Cliff's revolving demand credit facility from $40.0 million to $70.0 million; and
- Exited the quarter with positive working capital of $63.5 million.

Executing the Business Strategy

The foundation of Pine Cliff's business model has been value creation through strong cash flow, production and reserve growth on a per share basis, conservative fiscal management and capital discipline. Pine Cliff was pleased to announce two acquisitions in the third quarter of 2014 that added low cost and low decline natural gas production, increased drilling opportunities and increased per share value.

The first acquisition in the quarter closed on August 7, 2014 and added approximately 950 Boe per day of production to Pine Cliff's portfolio. In addition, this acquisition added prospective drilling inventory in our Carrot Creek / Edson core area. On October 1, 2014, we closed our most significant acquisition to date of shallow natural gas assets in Southern Alberta and Saskatchewan that added approximately 5,300 Boe per day of production to Pine Cliff's portfolio in its Southern core area. In aggregate, we are now producing over 12,000 Boe per day and expect to exit the year with production between 11,900 and 12,100 Boe per day.

Outlook

The stock markets have been very volatile since we completed our financing, but this recent softening of commodity prices may provide accretive acquisition opportunities for Pine Cliff. Pine Cliff remains committed to maintaining a strong balance sheet as we seek to add further assets to our portfolio and we are determined to stay disciplined on what we will pay for additional assets. We are pleased with the low decline, low cost asset base that we have built. The assets in our portfolio generate substantial free funds flow from operations which will allow Pine Cliff to pay down debt, fully fund our 2015 capital spending program and reserve cash for future acquisitions.

On behalf of our management team, I would like to thank you for your support and continued confidence in our business plan. We continue to search for accretive opportunities that deliver long term value for our shareholders and we look forward to updating you in the near future on the next stage of our development.

Yours truly,

Phil Hodge
President and Chief Executive Officer
November 12, 2014

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-IFRS measures and oil and gas measurements. This President's Message should be read in conjunction with the unaudited condensed consolidated interim financial statements of Pine Cliff Energy Ltd. together with Management's Discussion and Analysis for the three and nine months ended September 30, 2014 and 2013, which can be found on www.sedar.com and is subject to the same cautionary statements as set out therein.

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
($000s, unless otherwise indicated)				
FINANCIAL				
Oil and gas sales	**17,469**	9,719	**52,981**	24,261
Cash flow from operating activities	**6,390**	2,579	**23,672**	9,431
Funds flow from operations [1]	**8,104**	3,014	**27,373**	9,136
Basic per share ($/share)	**0.04**	0.02	**0.14**	0.06
Diluted per share ($/share)	**0.04**	0.02	**0.13**	0.05
Earnings (loss)	**918**	(709)	**6,220**	7,379
Basic per share ($/share)	**0.00**	(0.00)	**0.03**	0.04
Diluted per share ($/share)	**0.00**	(0.00)	**0.03**	0.04
Capital expenditures, excluding acquisitions	**5,291**	3,076	**8,401**	7,131
Capital dispositions	**(2,929)**	-	**(2,929)**	-
Acquisitions	**32,116**	45,463	**32,116**	43,987
Working capital	**63,503**	(6,973)	**63,503**	(6,973)
Weighted-average common shares outstanding (000s)				
Basic	**203,677**	181,927	**202,519**	164,231
Diluted	**211,123**	181,927	**210,363**	170,858
OPERATIONS				
Production [2, 3]				
Natural gas (Mcf/d)	**38,383**	33,157	**37,134**	23,850
Crude oil (Bbls/d)	**90**	67	**60**	64
Natural gas liquids (Bbls/d)	**323**	191	**238**	190
Total (Boe/d)	**6,810**	5,784	**6,487**	4,229
Realized commodity sales prices				
Natural gas ($/Mcf)	**4.29**	2.45	**4.66**	2.91
Crude oil ($/Bbl)	**78.64**	104.53	**86.32**	98.66
Natural gas liquids ($/Boe)	**55.84**	86.76	**65.18**	68.58
Combined ($/Boe)	**27.88**	18.26	**29.91**	21.01
Netback ($/Boe)				
Operating netback ($/Boe) [4]	**15.08**	7.32	**17.36**	9.04

[1] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital and changes in interest payable.

[2] The results for the three and nine month periods ended September 30, 2014 include the results of the Carrot Creek/Edson Asset Acquisition for the 56 day period of August 7, 2014 to September 30, 2014.

[3] The results for the nine months ended September 30, 2013 include the results of the Skope Acquisition for the 223 day period of February 19, 2013 to September 30, 2013, the results of the Monogram Asset Acquisition for the 68 day period of July 24 to September 30, 2013 and the August 30, 2013 Additional Interests Acquisition for the 31 day period of August 30 to September 30, 2013.

[4] Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the Boe production of the Company.

November 11, 2014

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three and nine months ended September 30, 2014 for Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") and should be read in conjunction with the unaudited condensed consolidated interim financial statements as at and for the three and nine month period ended September 30, 2014 and 2013, together with the notes related thereto, and the audited consolidated financial statements as at and for the year ended December 31, 2013, together with the notes related thereto ("2013 Annual Financial Statements"). Additional information relating to the Company, including the Company's Annual Information Form, may be found on www.sedar.com and by visiting Pine Cliff's website at www.pinecliffenergy.com.

Pine Cliff's head office is based in Calgary, Alberta, Canada. Common shares of the Company are listed and posted for trading on the Toronto Stock Exchange Venture under the symbol "PNE".

READER ADVISORIES

This MD&A contains financial measures that are not defined under International Financial Reporting Standards ("IFRS") and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-IFRS Measures" and "Forward-Looking Information" included at the end of the MD&A.

Other Measurements
All amounts herein are presented in Canadian dollars unless otherwise specified. All references to C$ or $ are to Canadian dollars and references to US$ are to United States dollars.

Where amounts are expressed in a barrel of oil equivalent ("Boe" or daily equivalent of "Boe/d"), natural gas volumes have been converted to barrels of oil equivalent on the basis that nine thousand cubic feet of natural gas ("Mcf" or daily equivalent of "Mcf/d") is equal to one barrel of oil ("Bbl" or daily equivalent of "Bbl/d"). This conversion ratio is based on energy equivalence primarily at the burner tip and does not represent a value equivalency at the wellhead. The term Boe may be misleading, particularly if used in isolation.

SENSITIVITIES

Pine Cliff's results are sensitive to changes in the business environment in which it operates. The following chart shows the Company's sensitivity to key commodity price variables and interest rates. The sensitivity calculations are performed independently showing the effect of the change of one variable; all other variables are held constant.

Business environment sensitivities		Impact on annual funds flow from operations [1]	
	Change	$000s	$ per share [3]
Crude oil price - Edmonton par ($/Bbl) [2]	$1.00	190	0.00
Natural gas price - AECO ($/Mcf) [2]	$0.10	1,520	0.01
Interest rate on variable rate debt	1.0%	-	0.00

[1] This analysis does not adjust for changes in working capital and uses current royalty rates.
[2] Pine Cliff has prepared this analysis using its third quarter 2014 daily sales volumes annualized for twelve months.
[3] Based on the third quarter of 2014 basic weighted average shares outstanding of 203,677,000.

PINE CLIFF'S STRATEGIC OBJECTIVES AND ACQUISITIONS

Pine Cliff is a growth oriented oil and gas exploration and production company seeking to acquire material asset positions in the Western Canadian Sedimentary Basin ("WCSB") to enlarge its current core areas and create new core areas of production with significant reserves and drilling inventories. The Company's current vision is to deliver long-term value to shareholders by building a portfolio of high-return assets for future growth focusing on counter cyclical natural gas opportunities while also accelerating current oil and liquids drilling and optimization opportunities.

The Company has executed the following seven key transactions since January 2012:

- The acquisition of certain oil and natural gas assets in the Carrot Creek area of Alberta (the "Carrot Creek Asset Acquisition");
- The combination of its operations with those of Geomark Exploration Ltd. ("Geomark");
- The acquisition of Skope Energy Ltd. (the "Skope Acquisition");

- The acquisition of additional working interests in the Monogram Unit (the "Monogram Unit") that is a portion of the Southern Assets, as defined herein, and related infrastructure (the "Monogram Asset Acquisition");
- The acquisition of additional interests in the Southern Assets (the "Additional Interests Acquisition");
- The acquisition of certain oil and natural gas assets in the Carrot Creek/Edson area of Alberta (the "Carrot Creek/Edson Asset Acquisition") which closed in the current quarter; and
- On October 1, 2014, the acquisition of certain shallow gas natural assets in Alberta and Southern Saskatchewan (the "Shallow Gas Asset Acquisition"). Refer to the disclosure under "Subsequent Events" for further details.

Management is pleased with its progress and believes that the assets that have been assembled to date and the cash flow from these assets will provide Pine Cliff with significant future opportunities. In the near-term, Pine Cliff will continue to maintain a strong financial position, drill selected strategic wells and aggressively pursue, evaluate and attempt to execute on further accretive business acquisitions.

PINE CLIFF'S OPERATIONS

Pine Cliff's operations include the exploration, development and production of natural gas, crude oil and natural gas liquids ("liquids" or "NGLs"). Pine Cliff's main areas of production are as follows:

- Southern Assets – At September 30, 2014, Pine Cliff holds an approximate 95% working interest in a package of high-quality, low decline, producing shallow gas assets in southeast Alberta and southwest Saskatchewan (collectively, the "Southern Assets"). The majority of the producing zones in these properties are from the upper Cretaceous Milk River, Medicine Hat and Second White Specks sands, which together constitute a meaningful interest for Pine Cliff in one of the largest Canadian gas fields in Western Canada. These fields are characterized by their shallow depths, low-permeability, clay-rich sands and long production life;

- Carrot Creek/Edson – Pine Cliff holds a working interest in a package of liquid rich natural gas assets which are located southeast of the town of Edson, Alberta (the "Carrot Creek/Edson Assets). In addition to the producing assets, Pine Cliff has, in aggregate, 24.25 gross (9.85 net) sections of undeveloped land. The Carrot Creek area has multi-zone potential which can be further exploited using horizontal drilling technology. Pine Cliff is the operator of approximately 72% of the Company's production in the area; and

- Other – the balance of Pine Cliff's 2014 production comes from non-operated properties in the Sundance area in northwest Alberta (the "Sundance Assets") and from non-operated properties in the Harmatten, Garrington and Carstairs areas in central Alberta (the "Central Alberta Assets"), however the Company does not currently have large enough land positions or working interests in these areas to consider them significant core areas.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2014			2013				2012
($000s, unless otherwise indicated)	**Q3 [1]**	Q2	Q1	Q4	Q3 [2]	Q2	Q1 [3]	Q4 [4]
Average sales volumes (boe/d)	**6,810**	6,371	6,276	6,443	5,784	4,335	2,536	832
Operating netback ($/boe) [5]	**15.08**	17.45	19.82	10.26	7.32	10.75	10.26	11.94
Oil and gas sales	**17,469**	17,136	18,376	12,621	9,719	9,084	5,458	2,319
Oil and gas sales, net of royalties	**15,700**	15,339	16,447	11,634	8,595	8,546	4,584	1,894
Total revenue	**15,907**	15,540	16,634	11,839	8,783	8,727	5,346	2,752
Cash flow from operating activities	**6,390**	7,242	10,039	6,631	2,579	3,751	3,101	660
Funds flow from operations [6]	**8,104**	9,180	10,089	5,564	3,014	3,721	2,401	775
Per share - basic ($/share)	**0.04**	0.05	0.05	0.03	0.02	0.02	0.02	0.01
Per share - diluted ($/share)	**0.04**	0.04	0.05	0.02	0.02	0.02	0.02	0.01
Earnings (loss)	**918**	2,333	2,969	3,722	(709)	(183)	8,271	(862)
Per share - basic ($/share)	**0.00**	0.01	0.01	0.01	0.00	0.00	0.05	(0.01)
Per share - diluted ($/share)	**0.00**	0.01	0.01	0.01	0.00	0.00	0.05	(0.01)

[1] The results for Q3-2014 include the results of the Carrot Creek/Edson Asset Acquisition for the 56 day period of August 7, 2014 to September 30, 2014.
[2] The results for Q3-2013 include the results of the Monogram Asset Acquisition for the 68 day period of July 24 to September 30, 2013, and Additional Interests Acquisition for the 31 day period of August 30 to September 30, 2013.
[3] The results for Q1-2013 include the results of the Southern Assets Acquisition for the 40 day period of February 19 to March 31, 2013.
[4] The sales volumes for Q4-2012 include the results of the Central Alberta Assets for the 73 day period of October 19 to December 31, 2012.
[5] Operating netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties and operating expenses, averaged over the Boe production of the Company.

[6] Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital.

Third quarter 2014 highlights

During the third quarter of 2014, Pine Cliff reports that it:

- Attained record average daily sales volumes of 6,810 Boe/d as compared to 6,371 Boe/d in the second quarter of 2014. The increase is mainly a result of additional production from the Carrot Creek/Edson Asset acquisition;
- Completed a share issuance for gross proceeds of $60.1 million ($57.2 million, net of share issue costs);
- Closed the Carrot Creek/Edson Asset Acquisition for $33.3 million, prior to purchase price adjustments;
- On October 1, 2014. announced, and subsequently closed the acquisition of certain natural gas assets in Alberta and Southern Saskatchewan for $100.0 million, prior to adjustments;
- Achieved quarterly funds flow from operations of $8.1 million, a decrease of 12% as compared to the second quarter 2014 funds flow from operations of $9.2 million. This decrease is mainly a result of a lower natural gas price environment, partially offset by higher average sales volumes; and
- Realized quarterly earnings of $0.9 million, a decrease of $1.4 million as compared to the second quarter 2014 earnings of $2.3 million. This decrease is mainly a result of higher non-cash depletion and depreciation and a lower natural gas price environment, partially offset by lower share based payment expense.

GUIDANCE FOR 2014

The 2014 guidance provides information as to management's expectation for results of operations for 2014. Readers are cautioned that the 2014 guidance may not be appropriate for other purposes. The Company's expected results are sensitive to fluctuations in the business environment and may vary accordingly. This guidance contains forward-looking information and should be read in conjunction with the Company's disclosure under "Forward-Looking Information" included on the final page of the MD&A.

Production

	2014 Guidance	Nine months ended September 30, 2014
Barrels of oil equivalent per day	7,500 - 7,900	6,487

As a result of the closing of the acquisition of the Shallow Gas Asset Acquisition, on October 1, 2014, Pine Cliff has increased its production guidance for 2014 from between 6,500 and 6,700 Boe/d to between 7,500 and 7,900 Boe/d. Pine Cliff's exit production at December 31, 2014 is expected to be between 11,900 and 12,100 Boe/d.

Capital Expenditures

	2014 Guidance	Nine months ended September 30, 2014 [1]
($000's)		
Total	13,600	8,401

[1] Capital expenditures excludes dispositions of $2.9 million.

Pine Cliff remains committed to an accretive acquisition program while continuing to focus on maintaining a strong financial position. Capital expenditures, excluding dispositions and acquisitions, during the first nine months of 2014 were $8.4 million. Pine Cliff plans to fund the remainder of its 2014 capital expenditures from funds flow from operations.

Pine Cliff maintains its capital guidance and plans to spend $13.6 million in 2014. Pine Cliff's capital expenditure program is sensitive to commodity pricing and Pine Cliff's budget is designed to be flexible to balance capital expenditures against available funds flow from operations. This program is substantially less than the Company's estimated 2014 funds flow from operations, which remains dependent on natural gas prices and production volumes.

SALES VOLUMES

Total sales volumes by product	Three months ended September 30 2014	2013	Nine months ended September 30 2014	2013
Natural gas (Mcf)	**3,531,232**	3,050,451	**10,137,489**	6,511,049
Crude oil (Bbls)	**8,315**	6,165	**16,813**	17,550
NGLs (Bbls)	**29,687**	17,543	**64,839**	51,750
Barrels of oil equivalent	**626,541**	532,116	**1,771,233**	1,154,475
Natural gas weighting	**94%**	96%	**95%**	94%

Average daily sales volumes by product	Three months ended September 30 2014	2013	Nine months ended September 30 2014	2013
Natural gas (Mcf/d)	**38,383**	33,157	**37,134**	23,850
Crude oil (Bbls/d)	**90**	67	**60**	64
NGLs (Bbls/d)	**323**	191	**238**	190
Total (Boe/d)	**6,810**	5,784	**6,487**	4,229

Average daily sales volumes by property	Three months ended September 30 2014	2013	Nine months ended September 30 2014	2013
(Boe/d)				
Southern Assets	**5,268**	4,713	**5,278**	3,211
Carrot Creek/Edson Assets	**1,303**	912	**981**	833
Central Alberta Assets	**131**	97	**139**	117
Sundance Assets	**108**	62	**89**	68
Total	**6,810**	5,784	**6,487**	4,229

Pine Cliff's sales volumes increased by 18% and 53% in the three and nine month periods ended September 30, 2014, respectively, as compared to the same periods of 2013. The significant increase was mainly a result of two acquisitions in the Southern Assets core area in the latter half of 2013 and the Carrot Creek/Edson Asset Acquisition in the third quarter of 2014.

Although many of the production issues experienced in the first quarter of 2014 that related to freeze-offs were resolved; in the second quarter of 2014, Pine Cliff's production was negatively impacted by scheduled maintenance and turnarounds conducted on the Southern Assets in April and May. Further scheduled maintenance on the Southern Assets in August and September resulted in production over the three and nine months ending September 30, 2014 remaining flat in this area. In the third quarter of 2014, production on Pine Cliff's Carrot Creek/Edson Assets was negatively impacted as a result of downtime experienced in July due to a planned expansion at Pine Cliff's compressor station and in September due to outages at a third party gas processing plant. The downtime was offset by the Carrot Creek/Edson Asset Acquisition which closed on August 7, 2014. Production on the acquired assets averaged approximately 850 Boe/d in August and approximately 725 Boe/d in September, as a result of the previously mentioned outage at a third party gas processing plant. The increase shown in Sundance in the three months ended September 30, 2014 is a result of the well brought on in the second quarter of 2014 being on production for a full quarter.

OPERATING AND CORPORATE NETBACKS

The components of the operating and corporate netback are summarized as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
($ per Boe)				
Oil and gas sales	**27.88**	18.26	**29.91**	21.01
Royalties	**(2.82)**	(2.11)	**(3.10)**	(2.20)
Operating expenses	**(9.98)**	(8.83)	**(9.45)**	(9.77)
Operating netback	**15.08**	7.32	**17.36**	9.04
General and administrative expense	**(2.26)**	(1.70)	**(2.18)**	(1.94)
Interest and bank charges	**(0.21)**	(0.32)	**(0.06)**	(0.18)
Finance and dividend income	**0.33**	0.35	**0.34**	0.98
Corporate netback	**12.94**	5.65	**15.46**	7.90
Operating netback ($ per Mcf)	**2.51**	1.22	**2.89**	1.51
Corporate netback ($ per Mcf)	**2.16**	0.94	**2.58**	1.32

Pine Cliff generated an operating netback of $15.08 and $17.36 per Boe for the three and nine months ended September 30, 2014, respectively, as compared to $7.32 and $9.04 per Boe for the three and nine months ended September 30, 2013, respectively. Overall, Pine Cliff generated a corporate netback of $12.94 and $15.46 per Boe for the three and nine months ended September 30, 2014, as compared to $5.65 and $7.90 per Boe in the same period of 2013. This increase is mainly due to higher commodity prices, partially offset by higher royalties per Boe and a lower liquids weighting.

OIL AND GAS SALES

	Three months ended September 30				Nine months ended September 30			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Natural gas [1]	**15,164**	**4.29**	7,552	2.45	**47,304**	**4.66**	18,926	2.91
Crude oil	**654**	**78.64**	644	104.53	**1,451**	**86.32**	1,731	98.66
NGLs	**1,651**	**55.84**	1,523	86.76	**4,226**	**65.18**	3,549	68.58
Total sales	**17,469**	**27.88**	9,719	18.26	**52,981**	**29.91**	24,261	21.01

[1] Per unit values are expressed in $ per Mcf.

Oil and gas sales for the three and nine months ended September 30, 2014 increased by 80% and 118%, respectively, as compared to the same periods of 2013, reflecting increased sales volumes from acquisitions completed in the third quarters of 2013 and 2014 and an overall higher commodity price environment in 2014. Pine Cliff's realized price in the three and nine months ended September 30, 2014 was $27.88 and $29.91 per Boe, respectively, as compared to $18.26 and $21.01 per Boe in the three and nine months ended September 30, 2013, respectively, reflecting an overall increase in the commodity price environment.

Commodity prices and foreign exchange rates

Pine Cliff's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table shows select market benchmark average prices and foreign exchange rates in the last eight quarters to assist in understanding the volatility in prices and foreign exchange rates that have impacted Pine Cliff's business.

	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012
Natural gas								
NYMEX (US$/Mmbtu) [1]	**4.07**	4.56	4.90	3.63	3.60	4.09	3.35	3.36
AECO (C$/Mcf)	**4.08**	4.76	5.42	3.52	2.43	3.52	3.18	3.20
Crude oil								
WTI (US$/Bbl)	**97.17**	102.99	98.68	97.44	105.82	94.22	94.37	88.18
Edmonton light (C$/Bbl)	**97.01**	105.33	100.23	86.75	105.18	93.03	88.65	84.47
Foreign exchange								
US$/C$	**1.0893**	1.0905	1.1035	1.0498	1.0385	1.0234	1.0089	0.9913

[1] Mmbtu is the abbreviation for millions of British thermal units. One Mcf of natural gas is approximately 1.02 Mmbtu.

The natural gas pricing environment improved in the third quarter of 2014 with the benchmark AECO natural gas price in Canada increasing by 68% in the third quarter of 2014 as compared to the third quarter of 2013, and average NYMEX gas price in the United States increasing by 13% in the same period. The AECO monthly strip for the next 12 months is currently trading in the $4.00 per Mcf range. The forward strip has weakened in recent weeks, in comparison to the previous 12 months average price and is likely due to storage being filled at a faster rate than anticipated as a moderate summer in North America has reduced usage, while dry gas production in the United States has achieved record levels. Pine Cliff's realized natural gas price during the third quarter of 2014 was $4.29 per Mcf, a decrease of 6% over the second quarter of 2014 and an increase of 75% over the second quarter of 2013.

WTI oil prices averaged US$97.17 per Bbl in the third quarter of 2014 as compared to US$105.82 per Bbl in the third quarter of 2013. Canadian crude prices are based upon refiner postings at Edmonton, Alberta and are linked to WTI through transportation tariffs to common markets and the foreign exchange rate. There remains potential for the price differentials to remain volatile in future periods. In the three months ended September 30, 2014, the realized price of Pine Cliff's oil was $78.64 per Bbl, as a result of quality adjustments to the average posted Edmonton light crude oil price of $97.01 per Bbl.

Historically, the average price of NGLs has tracked the price of oil. However, changes in the supply and demand for certain NGLs such as ethane, propane and butane have impacted the relationship between the price of NGLs and the price of oil. In the three months ended September 30, 2014, the realized price of Pine Cliff's NGLs was $55.84 per Bbl, representing approximately 58% of the Edmonton light crude oil prices as compared to 82% in the three months ended September 30, 2013.

Pine Cliff does not currently utilize a hedging strategy and thereby has not eliminated any of the upside, or potential downside, of price fluctuations for its shareholders. The Company continues to monitor the fluctuating commodity prices closely and their impact on our results and strategies.

ROYALTIES

	Three months ended September 30				Nine months ended September 30			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Total	**1,769**	**2.82**	1,124	2.11	**5,495**	**3.10**	2,536	2.20
% of oil and gas sales	**10%**		12%		**10%**		10%	

Royalties for the three and nine months ended September 30, 2014 were $2.82 and $3.10 per Boe, respectively, as compared to $2.11 and $2.20 per Boe for the three and nine months ended September 30, 2013, respectively. As a percentage of oil and gas sales, royalties averaged 10% for the three and nine months ended September 30, 2014, as compared to 12% and 10% for the three and nine months ended September 30, 2013, respectively.

OPERATING EXPENSES

	Three months ended September 30				Nine months ended September 30			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Operating expenses	**6,254**	**9.98**	4,696	8.83	**16,731**	**9.45**	11,282	9.77
% of oil and gas sales	**36%**		48%		**32%**		47%	

Operating expenses for the three months ended September 30, 2014 increased by 13% per Boe as compared to the same period of 2013. The increase is due in part to the newly added Carrot Creek/Edson Assets that have a higher operating cost per Boe as well as a lower base production than anticipated as a result of third party outages. Operating expenses for the nine months ended September 30, 2014 decreased by 3% per Boe as compared to the same period of 2013. The decrease is due in part to lower average operating expense per Boe on the Southern Assets which make up a larger percentage of Pine Cliff's 2014 production.

Pine Cliff anticipates operating expenses in the $9.00 per Boe range for the remainder of 2014. Pine Cliff remains committed to seeking ways to increase efficiencies in the field on its operated properties and is working with its partners on its non-operated properties to attempt to decrease the operating expenses per Boe in future periods.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended September 30				Nine months ended September 30			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Total	**1,417**	**2.26**	905	1.70	**3,863**	**2.18**	2,234	1.94
Less: transaction costs	**77**	**0.12**	40	0.08	**77**	**0.04**	194	0.17
	1,340	**2.14**	865	1.62	**3,786**	**2.14**	2,040	1.77
% of oil and gas sales	**8%**		9%		**7%**		8%	

General and administrative expenses ("G&A"), excluding transaction costs, increased 32% and 21% per Boe in the three and nine months ended September 30, 2014, respectively, as compared to the same periods of 2013. On an absolute dollar basis, G&A has increased in 2014 mainly due to increased staffing requirements associated with the 2013 and 2014 acquisitions. To keep G&A at a low level, Pine Cliff shares some common expenses with Bonterra Energy Corp. ("Bonterra"), a related party.

In the three and nine months ended September 30, 2014, Pine Cliff incurred $0.08 million in transaction costs related to the Carrot Creek/Edson Asset Acquisition and the Shallow Gas Assets Acquisition. In the three and nine months ended September 30, 2013, Pine Cliff incurred $0.04 million and $0.2 million, respectively, in transaction costs related to the acquisition of Skope and the acquisition of the Monogram Assets. The transaction costs are comprised of legal, accounting, consulting and regulatory expenses associated with those business transactions.

SHARE-BASED PAYMENTS

	Three months ended September 30				Nine months ended September 30			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Total	**456**	**0.73**	578	1.09	**1,499**	**0.85**	1,676	1.45
% of oil and gas sales	**3%**		6%		**3%**		7%	

The Company has an equity settled stock-based compensation plan. Stock options are granted to certain officers, directors, employees and consultants, with the term and vesting period of the options granted being determined at the discretion of the Company's board of directors. An option's maximum term is five years.

In the nine months ended September 30, 2014, Pine Cliff granted stock options to purchase 1,731,000 common shares at a weighted average exercise price of $1.52 per share. As at September 30, 2014, the Company had 11,112,000 stock options outstanding (September 30, 2013 - 10,675,000) which represents 5.4% of common shares outstanding. In the three and nine months ended September 30, 2014, Pine Cliff recorded share-based payment expense of $0.5 million and $1.5 million, respectively, (three and nine months ended September 30, 2013 - $0.6 million and $1.7 million, respectively) related to the stock options issued.

DEPLETION AND DEPRECIATION

	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Oil and gas assets	**5,987**	**9.56**	4,845	9.11	**16,311**	**9.21**	10,089	8.74
Office furniture and equipment	**48**	**0.08**	58	0.11	**111**	**0.06**	58	0.05
Total	**6,035**	**9.64**	4,903	9.22	**16,422**	**9.27**	10,147	8.79
% of oil and gas sales	**35%**		50%		**31%**		42%	

Pine Cliff's depletion and depreciation expense increased 5% on a per Boe basis in the three and nine months ended September 30, 2014, respectively, as compared to the same periods in 2013. The increase in depletion and depreciation expense per Boe in 2014 is mainly a result of a higher depletion rate on the Southern Assets and newly added Carrot Creek/Edson Assets in the current quarter as compared to the depletion rate on Pine Cliff's historical assets.

FINANCE EXPENSES

	Three months ended September 30				Nine months ended September 30			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Unwinding of the discounted value of decommissioning liabilities	**324**	**0.52**	262	0.49	**975**	**0.55**	590	0.51
Interest and bank charges	**130**	**0.21**	168	0.32	**114**	**0.06**	204	0.18
Total	**454**	**0.73**	430	0.81	**1,089**	**0.61**	794	0.69
% of oil and gas sales	**3%**		4%		**2%**		3%	

In the three and nine months ended September 30, 2014, Pine Cliff incurred finance expenses of $0.5 million and $1.1 million, respectively, as compared to $0.4 million $0.8 million in the three and nine months ended September 30, 2013, respectively. Finance expenses in 2014 primarily relate to the unwinding of the discounted value of decommissioning liabilities which has increased as a result of the significant decommissioning liabilities associated with the Southern Assets.

FINANCE AND DIVIDEND INCOME

	Three months ended September 30				Nine months ended September 30			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Finance income	**23**	**0.04**	17	0.03	**46**	**0.03**	624	0.54
Dividend income	**184**	**0.29**	171	0.32	**549**	**0.31**	507	0.44
Total	**207**	**0.33**	188	0.35	**595**	**0.34**	1,131	0.98
% of oil and gas sales	**1%**		2%		**1%**		5%	

In both the three and nine months ended September 30, 2014 and 2013, Pine Cliff received $0.2 million and $0.5 million, respectively, in dividends from its investment in Bonterra. The investment in Bonterra common shares was obtained through the acquisition of Geomark. During the nine months ended September 30, 2013, Pine Cliff collected interest on monies loaned as part of the Skope Acquisition. This interest collection ceased on February 19, 2013, when Skope Energy Ltd. became a wholly-owned subsidiary of Pine Cliff.

INCOME TAXES

	Three months ended September 30				Nine months ended September 30			
	2014		2013		**2014**		2013	
(000s, except per Boe amounts)	**$**	**$ per Boe**	$	$ per Boe	**$**	**$ per Boe**	$	$ per Boe
Deferred tax expense (recovery)	**373**	**0.60**	(2,020)	(3.80)	**2,257**	**1.27**	417	0.36

During the three and nine months ended September 30, 2014, Pine Cliff recorded a deferred tax expense of $0.4 million and $2.3 million, respectively (three and nine months ended September 30, 2013 - recovery of $2.0 million and expense of $0.4 million, respectively). The increase in deferred tax expense in the nine months ended September 30, 2014 is due to the absence of the one-time gain recognized on the Skope Acquisition in the same period of 2013.

Pine Cliff has approximately $192.3 million in tax pools at September 30, 2014 (December 31, 2013 - $195.4 million) available for future use as deductions from taxable income.

EARNINGS

Year to date to year to date variance analysis:

($000s)	
Earnings for the nine months ended September 30, 2013	**7,379**
Price variance	10,275
Volume variance	18,445
Royalties	(2,959)
Operating expenses	(5,449)
General and administrative	(1,629)
Share-based payments	177
Depletion and depreciation	(6,275)
Finance expenses	(295)
Gain on acquisition	(11,117)
Dividend income	42
Finance income	(578)
Deferred tax expense (recovery)	(1,840)
Impairment of investment	44
Earnings for the nine months ended September 30, 2014	**6,220**

In the nine months ended September 30, 2014, earnings decreased by $1.2 million to $6.2 million as compared to the nine months ended September 30, 2013. The decrease in earnings is mainly due to higher depletion expense in the third quarter of 2014 and a one-time $11.1 million gain on acquisition in the prior year, offset by positive volume and price variances in 2014 as compared to 2013. The increase in volumes is attributed to increased production from the Monogram Asset Acquisition and the Additional Interests Acquisition on the Southern Assets in the latter half of 2013 as well as increased production from the Carrot Creek/Edson Asset Acquisition in the third quarter of 2014. The commodity price environment has also increased in the third quarter of 2014 as compared to the same period of 2013. Refer to further discussion in "Oil and Gas Sales".

Other comprehensive earnings

Other comprehensive earnings relates to the increase and decrease in fair value of Pine Cliff's investment in Bonterra, Nighthawk Gold Corp. and another public corporation. At September 30, 2014, Pine Cliff's investments have a fair value of $11.9 million as compared to $11.3 million at December 31, 2013.

FUNDS FLOW FROM OPERATIONS

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
($000s, except per Boe amounts)				
Earnings (loss) for the period	**918**	(709)	**6,220**	7,379
Adjustments for:				
Share-based payments	**456**	578	**1,499**	1,676
Depletion and depreciation	**6,035**	4,903	**16,422**	10,147
Impairment of investment	**-**	-	**-**	44
Unwinding of the discount on decommissioning liabilities	**324**	262	**975**	590
Gain on acquisition	**-**	-	**-**	(11,117)
Deferred tax expense (recovery)	**373**	(2,020)	**2,257**	417
Funds flow from operations	**8,104**	3,014	**27,373**	9,136
Funds flow from operations ($/Boe)	**12.92**	5.65	**15.44**	7.90

Funds flow from operations, which represents cash flow from operating activities before changes in non-cash working capital, was $8.1 million and $27.4 million in the three and nine months ended September 30, 2014, respectively, as compared to $3.0 million and $9.1 million in the same periods of 2013. The increase in funds flow from operations is primarily due to the additional revenue from increased production from the Southern Assets and Carrot Creek/Edson Assets acquisitions and higher commodity pricing in the current periods.

SHARE CAPITAL

As of September 30, 2014, a total of 233,459,259 Pine Cliff shares were issued and outstanding. In the first nine months of 2014, Pine Cliff issued 3,966,500 common shares as a result of stock option exercises. On September 23, 2014, Pine Cliff completed a share issuance of 29,300,000 common shares for gross proceeds of $60.1 million ($57.2 million, net of share issue costs).

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

($000s)	**Nine months ended September 30, 2014**	Year ended December 31, 2013
Exploration and evaluation assets - oil and gas division	**-**	170
Exploration and evaluation assets - minerals division	**49**	990
Oil and gas assets	**8,084**	10,468
Vehicles and administrative assets	**268**	185
Acquistions	**32,257**	94,348
Dispositions	**(2,929)**	(1,202)
Capitalized asset retirement costs	**5,276**	5,148
Total	**43,005**	110,107

In the nine months ended September 30, 2014, Pine Cliff added $43.0 million in capital assets to its statement of financial position as compared to $110.1 million in the year ended December 31, 2013. The Carrot Creek/Edson Asset acquisition included property, plant and equipment of $32.0 million and exploration and evaluation assets of $0.3 million.

In the first nine months of 2014, Pine Cliff participated in two gross (0.55 net) wells in the Carrot Creek area, and one gross (0.15 net) well in the Sundance area. Although one well in the Carrot Creek area was determined to not be economic and therefore not tied in, the second well was completed and brought on production subsequent to September 30, 2014, while the Sundance well was completed in April 2014 and brought on production in May 2014. Additionally, Pine Cliff recompleted an existing wellbore on the Carrot Creek/Edson Assets, conducted major turnovers and upgrades on facilities on the Southern Assets and the Carrot Creek/Edson Assets and expanded and re-equalized a compressor station in the Carrot Creek/Edson Assets.

RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

Management services agreement

Pine Cliff has a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with some common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for each of the three and nine month periods ended September 30, 2014 and 2013 were $0.02 million and $0.05 million, respectively, plus the reimbursement of certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at September 30, 2014, Pine Cliff owed Bonterra $0.06 million (December 31, 2013 – $0.2 million).

Investment in Bonterra

As at September 30, 2014, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2012 – 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares, as of September 30, 2014, have a fair value of approximately $11.6 million (December 31, 2013 – $11.1 million). For the three and nine months ended September 30, 2014, Pine Cliff received dividend income of $0.2 million and $0.6 million, respectively (three and nine months ended September 30, 2013 - $0.2 million and $0.5 million, respectively).

LIQUIDITY

Liquidity describes a company's ability to access cash. Growth companies operating in the upstream oil and gas business, such as Pine Cliff, require sufficient cash to fund exploration and development projects, to increase production and reserves and to acquire strategic oil and gas assets.

The following table highlights Pine Cliff's sources and uses of cash for the three and nine month periods ended September 30, 2014 and 2013:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
($000s)				
Funds flow from operations	**8,104**	3,014	**27,373**	9,136
Bank debt proceeds (repayment)	**3,282**	20,485	**3,082**	17,448
Purchase of term deposit	**-**	-	**-**	(21,500)
Maturity of term deposit	**-**	21,500	**-**	21,500
Issuance of common shares, net of share issue costs	**57,166**	4	**57,166**	23,707
Exercise of stock options	**309**	46	**2,372**	46
Cash from acquisitions	**-**	-	**-**	1,476
Increase (decrease) in non-cash working capital	**(11,675)**	2,224	**(15,156)**	284
Decrease (increase) in cash	**(22,708)**	1,266	**(37,249)**	497
Total capital expenditures, including acquisitions[1]	**34,478**	48,539	**37,588**	52,594
Capital expenditures, including acquisitions[1]:				
Oil and gas	**34,456**	48,425	**37,539**	51,799
Minerals	**22**	114	**49**	795

[1]Capital expenditures is presented net of $2.9 million in dispositions.

In the third quarter of 2014, Pine Cliff funded its capital expenditures, including acquisitions, from funds flow from operations, bank debt and by raising $60.1 million ($57.2 million, net of share issue costs) through an issuance of common shares. The existing banking arrangements at September 30, 2014 are comprised of a revolving demand credit facility in the amount of $40.0 million, of which $3.3 million is drawn at September 30, 2014. The current revolving period will end on May 31, 2015 and if the revolving demand credit facility is not renewed any amounts owing will become payable in full on demand. Pine Cliff has a $4.9 million letter of credit issued against its revolving term credit facility in connection with its limited liability rating in the Province of Saskatchewan. The Company was in compliance with its bank debt covenants during the three and nine month periods ended September 30, 2014 and will take steps to ensure that it remains in compliance with its covenants in future periods and anticipates renewing the credit facility at the end of the revolving period. On October 1, 2014, Pine Cliff increased the borrowing base of the credit facility to $70.0 million.

Funds flow from operations, cash on hand and the unused portion of the credit facility will allow Pine Cliff to meet its short-term financial liabilities, as well as future capital requirements, at a reasonable cost. The Company believes it has sufficient funding and access to capital to meet its obligations as they come due and, if required, will consider additional short-term financing or issuing equity in order to meet its future liabilities.

Working capital is calculated as current assets minus current liabilities and represents the ability of a company to satisfy both maturing short-term debt and upcoming operational expenses. The capital intensive nature of the oil and gas business may result in working capital deficiencies from time to time. Pine Cliff manages its working capital ratio to ensure that it has sufficient unused funds under its credit facility and access to capital to accommodate such circumstances. Additionally, the revolving demand credit facility requires Pine Cliff to maintain a working capital ratio computed as current assets less current liabilities, excluding the current portion of bank debt and inclusive of unused funds under the credit facility, of greater than 1:1. As at September 30, 2014, the Company had working capital of $63.5 million (December 31, 2013 – $13.6 million).

COMMITMENTS AND CONTINGENCIES

In the normal course of business, Pine Cliff has entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity. The maturity dates of the Company's commitments include trade and other payables of $9.3 million that are due in less than nine months from the balance sheet date.

OFF BALANCE SHEET TRANSACTIONS

Pine Cliff was not involved in any off-balance sheet transactions during the periods presented, nor have we entered into any such arrangements as of the effective date of this MD&A.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company faces both financial and non-financial risks inherent in the oil and gas business. Financial risks include: commodity price risk, foreign exchange risk, interest rate risk, and credit risk. Financial risks can be managed, at least to a degree, through the utilization of financial instruments. Certain non-financial risks can be mitigated through the use of insurance and/or other risk transfer mechanisms, good business practices and process controls, while others must simply be borne. All risks can have an impact upon the financial performance of the Company.

A comprehensive discussion of Pine Cliff's financial instruments and risk management is provided in the Company's MD&A for the year ended December 31, 2013.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgments, assumptions and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses for the period reported. The significant accounting policies used by the Company are disclosed in the notes to the consolidated financial statements. Management believes that the most critical accounting policies that may have an impact on the Company's financial results are those that specifically relate to the accounting for its oil and gas interests, including amounts recorded for depletion and the impairment test which are both based on estimates of proved and probable reserves, production rates, oil prices, future costs and other relevant assumptions. Actual results could differ materially from such estimates.

A comprehensive discussion of the judgments, assumptions and estimates made by management is provided in the Company's annual MD&A for the year ended December 31, 2013.

ACCOUNTING POLICY AND STANDARD CHANGES

The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of Pine Cliff's 2013 Annual Financial Statements, except for the adoption of new standards and interpretations effective as of January 1, 2014.

The nature and impact of each new standard or amendment is described below:

IAS 32 *Financial Instruments: Presentation* ("IAS 32")
Effective January 1, 2014, the Company applied the amendment to IAS 32 clarifying certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The amendment has been applied retrospectively and did not result in any adjustments for the three months ended September 30, 2014 or any prior periods.

IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39")
Effective January 1, 2014, the Company applied the amendment to IAS 39 under which there is no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendment has been applied prospectively as required by transitional provisions. The application had no impact on the financial statements for the three months ended September 30, 2014.

IAS 36 *Impairment of Assets* ("IAS 36")
Effective January 1, 2014, the Company applied the amendment to IAS 36 under which certain disclosure requirements were altered. The amendment has been applied retrospectively and did not result in any changes to the financial statements for the three months ended September 30, 2014 or any prior periods.

IFRIC 21 *Levies* ("IFRIC 21")
Effective January 1, 2014, the Company retrospectively adopted IFRIC 21, developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (for example, IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation did not have any impact on the Company's financial statements.

Future accounting pronouncements

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")
In May 2014, the IASB published the new revenue standard, IFRS 15, which specifies how and when revenue should be recognized and requires more informative and relevant disclosures. The standard is required to be applied on first interim periods beginning

on or after January 1, 2017, with early application permitted. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

IFRS 9 *Financial Instruments* ("**IFRS 9**")
In July 2014, the IASB has amended IFRS 9 which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

SUBSEQUENT EVENTS

Credit facility
On October 1, 2014, Pine Cliff increased its borrowing base on its existing credit facility to $70.0 million. The current revolving period will end on May 31, 2015 and if the revolving demand credit facility is not renewed any amounts owing will become payable in full on demand.

Acquisition of Southern Alberta and Southern Saskatchewan natural gas assets
On October 1, 2014, Pine Cliff completed the Shallow Gas Asset Acquisition. The total consideration of $100.0 million, prior to any adjustments, was financed through a combination of working capital and bank debt. The purchase price allocation using the acquisition method is incomplete as of the date hereof.

Issuance of stock options
Subsequent to September 30, 2014, Pine Cliff granted 987,000 stock options to employees with a weighted average exercise price of $1.62, based on the market price immediately preceding the date of grant.

NON-IFRS MEASURES

This MD&A uses the terms "funds flow from operations", "operating netbacks", "corporate netbacks" and "net debt" which are not recognized under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to evaluate its performance, leverage and liquidity, as well as to assess potential acquisitions.

The Company considers funds flow from operations a key performance measure as it demonstrates the Company's ability to generate the funds necessary to repay debt and fund future growth through capital investment. Funds flow from operations and funds flow from operations per share should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as per the statement of cash flows which is considered the most directly comparable measure under IFRS. Funds flow from operations is calculated as cash flow from operating activities before changes in non-cash working capital and changes in interest payable. Funds flow from operations per share is calculated using the same weighted average number of shares outstanding as in the case of the earnings per share calculation for a reporting period.

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
($000s)				
Cash flow from operating activities	**6,390**	2,579	**23,672**	9,431
Adjusted by:				
Increase (decrease) in non-cash working capital	**(1,714)**	(435)	**(3,701)**	295
Funds flow from operations	**8,104**	3,014	**27,373**	9,136

The Company considers operating netback to be a key indicator of profitability relative to current commodity prices. Operating netback and operating netback per Boe are calculated as oil and gas sales, less royalties and operating expenses on an absolute and a per Boe basis, respectively.

The Company considers corporate netback to be a key indicator of overall profitability. Corporate netback and corporate netback per Boe are calculated as operating netback, less G&A and interest expense plus finance and dividend income on an absolute and on an absolute and a per Boe basis, respectively.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", 'should", "expect", 'seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected production levels; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived there from. Except as required by law, Pine Cliff disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

The information provided in this report, including the interim condensed consolidated financial statements, is the responsibility of Pine Cliff's management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed these interim condensed consolidated financial statements with management and has reported to the Board of Directors. The Board of Directors have approved the interim condensed consolidated financial statements as presented in this interim report.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian dollars, 000s)
(unaudited)

	Note	**As at September 30, 2014**	As at December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents		**38,554**	1,305
Trade and other receivables		**12,798**	9,217
Prepaid expenses and deposits		**12,312**	591
Investments	4	**11,849**	11,287
Total current assets		**75,513**	22,400
Exploration and evaluation assets	5	**7,756**	7,415
Property, plant and equipment	6	**146,258**	120,016
Restricted cash		**33**	33
Goodwill		**3,535**	3,535
Deferred taxes		**25,480**	27,087
Total assets		**258,575**	180,486
LIABILITIES			
Current liabilities			
Trade and other payables		**8,728**	8,579
Bank debt	7	**3,282**	200
Total current liabilities		**12,010**	8,779
Decommissioning liabilities		**49,077**	42,685
Total liabilities		**61,087**	51,464
SHAREHOLDERS' EQUITY			
Share capital	8	**190,704**	127,002
Contributed surplus		**1,915**	3,856
Accumulated other comprehensive earnings		**2,052**	1,567
Retained earnings (deficit)		**2,817**	(3,403)
Total shareholders' equity		**197,488**	129,022
Total liabilities and shareholders' equity		**258,575**	180,486

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
(Canadian dollars, 000s except per share data)
(unaudited)

	Note	Three months ended September 30 **2014**	2013	Nine months ended September 30 **2014**	2013
Oil and gas sales		**17,469**	9,719	**52,981**	24,261
Royalties		**(1,769)**	(1,124)	**(5,495)**	(2,536)
Dividend income	4	**184**	171	**549**	507
Finance income		**23**	17	**46**	624
REVENUE		**15,907**	8,783	**48,081**	22,856
EXPENSES					
Operating		**6,254**	4,696	**16,731**	11,282
General and administration		**1,417**	905	**3,863**	2,234
Depletion and depreciation	6	**6,035**	4,903	**16,422**	10,147
Share-based payments	8	**456**	578	**1,499**	1,676
Impairment of investment		**-**	-	**-**	44
Finance expenses		**454**	430	**1,089**	794
Total expenses		**14,616**	11,512	**39,604**	26,177
Earnings (loss) before other income and income taxes		**1,291**	(2,729)	**8,477**	(3,321)
Gain on acquisition		**-**	-	**-**	11,117
Earnings (loss) before income taxes		**1,291**	(2,729)	**8,477**	7,796
Deferred tax expense (recovery)		**373**	(2,020)	**2,257**	417
EARNINGS (LOSS) FOR THE PERIOD		**918**	(709)	**6,220**	7,379
Earnings (loss) per share ($)	8				
Basic		**0.00**	(0.00)	**0.03**	0.04
Diluted		**0.00**	(0.00)	**0.03**	0.04

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)
(Canadian dollars, 000s)
(unaudited)

	Three months ended September 30 **2014**	2013	Nine months ended September 30 **2014**	2013
Earnings (loss) for the period	**918**	(709)	**6,220**	7,379
OTHER COMPREHENSIVE EARNINGS				
Unrealized gain (loss) on investment	**(1,674)**	1,372	**555**	2,154
Deferred taxes on unrealized loss (gain) on investment	**230**	(171)	**(70)**	(269)
OTHER COMPREHENSIVE EARNINGS (LOSS) FOR THE PERIOD	**(1,444)**	1,201	**485**	1,885
COMPREHENSIVE EARNINGS (LOSS) FOR THE PERIOD	**(526)**	492	**6,705**	9,264

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian dollars, 000s)
(unaudited)

	Note	Three months ended September 30		Nine months ended September 30	
		2014	2013	**2014**	2013
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):					
OPERATING ACTIVITIES					
Earnings (loss) for the period		**918**	(709)	**6,220**	7,379
Items not affecting cash:					
Share-based payments		**456**	578	**1,499**	1,676
Depletion and depreciation		**6,035**	4,903	**16,422**	10,147
Finance expenses		**454**	430	**1,089**	794
Gain on acquisition		**-**	-	**-**	(11,117)
Deferred tax expense (recovery)		**373**	(2,020)	**2,257**	417
Impairment of investment		**-**	-	**-**	44
Changes in non-cash working capital accounts		**(1,714)**	(435)	**(3,701)**	295
Interest and bank charges paid		**(132)**	(168)	**(114)**	(204)
Cash and cash equivalents provided by (used in) operating		**6,390**	2,579	**23,672**	9,431
INVESTING ACTIVITIES					
Expenditures on property, plant and equipment	6	**(5,269)**	(2,928)	**(8,352)**	(6,262)
Disposition of property, plant and equipment	6	**2,929**	-	**2,929**	-
Expenditures on exploration and evaluation assets	5	**(22)**	(148)	**(49)**	(869)
Acquisitions, net of working capital acquired	3	**(32,116)**	(45,463)	**(32,116)**	(43,987)
Purchase of term deposit		**-**	-	**-**	(21,500)
Maturity of term deposit		**-**	21,500	**-**	21,500
Changes in non-cash working capital accounts		**(10,089)**	2,719	**(11,583)**	(136)
Cash and cash equivalents used in investing activities		**(44,567)**	(24,320)	**(49,171)**	(51,254)
FINANCING ACTIVITIES					
Issuance of common shares, net of share issue costs	8	**57,166**	4	**57,166**	23,707
Exercise of stock options	8	**309**	46	**2,372**	46
Bank debt		**3,282**	20,485	**3,082**	17,448
Changes in non-cash working capital accounts		**128**	(60)	**128**	125
Cash and cash equivalents provided by financing activities		**60,885**	20,475	**62,748**	41,326
Increase (decrease) in cash and cash equivalents		**22,708**	(1,266)	**37,249**	(497)
Cash and cash equivalents - beginning of period		**15,846**	1,586	**1,305**	817
CASH AND CASH EQUIVALENTS - END OF PERIOD		**38,554**	320	**38,554**	320

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Canadian dollars, 000s)
(unaudited)

	Note	Share capital	Contributed surplus [1]	Accumulated other comprehensive earnings [2]	Retained earnings (deficit)	Total equity
BALANCE AT JANUARY 1, 2013		**83,542**	**1,749**	**43**	**(14,313)**	**71,021**
Issuance of shares		25,080	-	-		25,080
Share issue costs, net of tax		(1,030)	-	-		(1,030)
Comprehensive earnings for the period		-	-	1,885	7,379	9,264
Share-based payments	8	-	1,676	-	-	1,676
Exercise of options		79	(33)	-	-	46
BALANCE AT SEPTEMBER 30, 2013		**107,671**	**3,392**	**1,928**	**(6,934)**	**106,057**
Issuance of shares		20,020	-	-	-	20,020
Share issue costs, net of tax		(771)	-	-	-	(771)
Comprehensive earnings for the period		-	-	(361)	3,531	3,170
Share-based payments	8	-	525	-	-	525
Exercise of options		82	(61)	-	-	21
BALANCE AT DECEMBER 31, 2013		**127,002**	**3,856**	**1,567**	**(3,403)**	**129,022**
Issuance of shares	8	60,065	-	-	-	60,065
Share issue costs, net of tax	8	(2,175)	-	-	-	(2,175)
Comprehensive earnings (loss) for the period		-	-	485	6,220	6,705
Share-based payments	8	-	1,499	-	-	1,499
Exercise of options		5,812	(3,440)	-	-	2,372
BALANCE AT SEPTEMBER 30, 2014		**190,704**	**1,915**	**2,052**	**2,817**	**197,488**

[1] Contributed surplus is comprised of share-based payments.
[2] Accumulated other comprehensive earnings is comprised of unrealized gains and losses on available-for-sale investments.

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at September 30, 2014 and December 31, 2013 and for the three and nine month periods ended September 30, 2014 and 2013 (unaudited)
(all tabular amounts in Canadian dollars 000s, unless otherwise indicated)

1. NATURE OF BUSINESS

Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") is a public company listed on the TSX Venture Exchange and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 850, 1015 4th Street SW, Calgary, Alberta, T2R 1J4.

Pine Cliff is engaged in the exploration, development and production of oil and natural gas in the Western Canadian Sedimentary Basin and conducts many of its activities jointly with others; these interim condensed consolidated financial statements (the "Financial Statements") reflect only the Company's proportionate interest in such activities. The Company had historically been involved in the exploration for precious metals through its subsidiaries.

2. BASIS OF PREPARATION AND CHANGES TO PINE CLIFF'S ACCOUNTING POLICIES

a) Basis of preparation
The Financial Statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* ("IAS 34") using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2013 ("2013 Annual Financial Statements").

The Financial Statements were authorized for issue by the Company's board of directors on November 11, 2014.

b) New standards, interpretations and amendments adopted by Pine Cliff
The accounting policies and method of computation followed in the preparation of the Financial Statements are the same as those followed in the preparation of Pine Cliff's 2013 Annual Financial Statements, except for the adoption of new standards and interpretations effective as of January 1, 2014.

The nature and impact of each new standard or amendment is described below:

IAS 32 *Financial Instruments: Presentation* ("IAS 32")
Effective January 1, 2014, the Company applied the amendment to IAS 32 clarifying certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities. The amendment has been applied retrospectively and did not result in any adjustments to the Financial Statements for the three months ended September 30, 2014 or any prior periods.

IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39")
Effective January 1, 2014, the Company applied the amendment to IAS 39 under which there is no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendment has been applied prospectively as required by transitional provisions. The application had no impact on the Financial Statements for the three months ended September 30, 2014.

IAS 36 *Impairment of Assets* ("IAS 36")
Effective January 1, 2014, the Company applied the amendment to IAS 36 under which certain disclosure requirements were altered. The amendment has been applied retrospectively and did not result in any changes to the Financial Statements for the three months ended September 30, 2014 or any prior periods.

IFRIC 21 *Levies* ("IFRIC 21")
Effective January 1, 2014, the Company retrospectively adopted IFRIC 21, developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (for example, IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation did not have any impact on the Company's financial statements.

Future accounting pronouncements

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")
In May 2014, the IASB published the new revenue standard, IFRS 15, which specifies how and when revenue should be recognized and requires more informative and relevant disclosures. The standard is required to be applied on first interim periods beginning on or after January 1, 2017, with early application permitted. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

IFRS 9 *Financial Instruments* ("**IFRS 9**")
In July 2014, the IASB has amended IFRS 9 which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company is currently assessing the impact the adoption of this standard will have on the Financial Statements.

3. ACQUISITIONS

Acquisition of Carrot Creek/Edson assets
On August 7, 2014, Pine Cliff completed the acquisition of certain oil and natural gas assets in the Carrot Creek/Edson area in the Province of Alberta (the "Carrot Creek/Edson Assets") for cash consideration of $33.25 million, prior to any adjustments.

The results of the Carrot Creek/Edson Assets acquisition have been included in the financial statements since August 7, 2014. The Carrot Creek/Edson Assets have contributed oil and gas sales, net of royalties, of $1.4 million and operating expenses of $0.3 million for the period from August 7, 2014 to September 30, 2014. If the acquisition had occurred on January 1, 2014, total oil and gas sales, net of royalties, would have been approximately $7.2 million and operating expenses would have been approximately $2.4 million for the nine months ended September 30, 2014, for the Carrot Creek/Edson Assets. Pine Cliff does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property and equipment	31,965
Exploration and evaluation assets	292
Decommissioning liabilities	(141)
Total net assets acquired	32,116

Consideration:	
Cash	32,116
Total purchase price	32,116

Transaction costs of $0.02 million have been expensed in the three month period ended September 30, 2014 and are included in general and administrative expenses in the condensed consolidated statement of earnings (loss) and are part of operating cash flows in the condensed consolidated statement of cash flows. The purchase price allocation is preliminary and is subject to change.

4. TRANSACTIONS WITH RELATED PARTIES

Management services agreement
Pine Cliff has a management services agreement with Bonterra, an oil and gas corporation that is publicly traded on the Toronto Stock Exchange with some common directors and management, to provide executive services, technical services, accounting services, oil and gas administration and office administration for Pine Cliff. Total fees for each of the three and nine month periods ended September 30, 2014 and 2013 were $0.02 million and $0.05 million, respectively, plus the reimbursement of certain administrative costs. The management services agreement may be cancelled by either party with 90 days notice. As at September 30, 2014, Pine Cliff owed Bonterra $0.06 million (December 31, 2013 – $0.2 million).

Investment in Bonterra
As at September 30, 2014, Pine Cliff owns 204,633 common shares in Bonterra (December 31, 2013 – 204,633) representing less than 1% of the outstanding shares of Bonterra at that date. The shares as of September 30, 2014 have a fair value of approximately $11.6 million (December 31, 2013 – $11.1 million). For the three and nine months ended September 30, 2014, Pine Cliff received

dividend income of $0.2 million and $0.5 million, respectively (three and nine months ended September 30, 2013 - $0.2 million and $0.5 million, respectively).

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

5. EXPLORATION AND EVALUATION ASSETS

The following table reconciles Pine Cliff's exploration and evaluation assets:

Cost:	Oil and gas properties	Minerals properties	Total
Balance at December 31, 2012	599	2,191	2,790
Additions	170	990	1,160
Acquisitions	4,667	-	4,667
Dispositions	-	(1,202)	(1,202)
Balance at December 31, 2013	5,436	1,979	7,415
Additions	-	49	49
Acquisitions	292	-	292
Balance at September 30, 2014	**5,728**	**2,028**	**7,756**

During the three and nine months ended September 30, 2014 and 2013, minimal directly attributable general and administration costs related to mineral exploration and evaluation assets were capitalized.

6. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Pine Cliff's property, plant and equipment assets:

Cost:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2012	36,287	5	36,292
Additions	15,616	185	15,801
Acquisitions	89,333	348	89,681
Balance at December 31, 2013	141,236	538	141,774
Additions	13,360	268	13,628
Acquisitions	31,965	-	31,965
Dispositions	(2,929)	-	(2,929)
Balance at September 30, 2014	**183,632**	**806**	**184,438**

Accumulated depletion and depreciation:	Oil and gas properties	Administrative assets	Total
Balance at December 31, 2012	(5,619)	-	(5,619)
Depletion and depreciation	(16,035)	(104)	(16,139)
Balance at December 31, 2013	(21,654)	(104)	(21,758)
Depletion and depreciation	(16,311)	(111)	(16,422)
Balance at September 30, 2014	**(37,965)**	**(215)**	**(38,180)**

Carrying value at:	Oil and gas properties	Administrative assets	Total
December 31, 2013	119,582	434	120,016
September 30, 2014	**145,667**	**591**	**146,258**

7. BANK DEBT

As at September 30, 2014, Pine Cliff had a $40.0 million revolving demand credit facility (the "Credit Facility") with a Canadian chartered bank, of which $3.3 million was drawn at September 30, 2014. The current revolving period will end on May 31, 2015 and if the Credit Facility is not renewed at that date it will become payable in full on demand. Amounts drawn under this Credit Facility are in the form of Canadian prime lending rate based loans, guaranteed notes or letters of credit. The Credit Facility bears interest at the prime lending rate plus 0.75% per annum. The Credit Facility is secured by a first priority security interest on all present and after acquired property of the Company. On October 1, 2014, Pine Cliff increased the borrowing base of its Credit Facility to $70.0 million.

The Credit Facility requires Pine Cliff to maintain a working capital ratio, excluding any related party note payable and the current portion of the bank debt and inclusive of unused funds under the Credit Facility, of greater than 1:1. The Company was in compliance with its bank debt covenants during the three and nine month periods ended September 30, 2014.

Pine Cliff has a $4.9 million letter of credit issued against its Credit Facility in connection with its limited liability rating in the Province of Saskatchewan.

8. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value. The Company is also authorized to issue, in one or more series, an unlimited number of Class B Preferred Shares without nominal or par value.

Issued

Issued and outstanding share capital continuity:	Common shares (000s)	Share capital
Balance at January 1, 2013	153,332	83,542
Shares issued pursuant to public share offerings	46,700	45,100
Exercise of options	161	161
Share issue costs, net of tax	-	(1,801)
Balance at December 31, 2013	200,193	127,002
Shares issued pursuant to public share offerings	29,300	60,065
Exercise of options	3,967	5,812
Share issue costs, net of tax	-	(2,175)
Balance at September 30, 2014	**233,460**	**190,704**

Per share calculations

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. In calculating the weighted average number of diluted shares outstanding for the nine month period ended September 30, 2014, the Company excluded 871,500 options (September 30, 2013 – 810,000) as their effect is anti-dilutive. For the three month period ended September 30, 2014, the Company excluded 282,000 options, as their effect is anti-dilutive (September 30, 2013 – all options were excluded as there was a loss in the period then ended).

	Three months ended September 30		Nine months ended September 30	
Loss per share calculation:	**2014**	2013	**2014**	2013
Numerator				
Earnings (loss) for the period	**918**	(709)	**6,220**	7,379
Denominator (000s)				
Weighted-average common shares outstanding - basic	**203,677**	181,927	**202,519**	164,231
Effect of options outstanding	**7,446**	-	**7,844**	6,627
Weighted-average common shares outstanding - diluted	**211,123**	181,927	**210,363**	170,858
Earnings (loss) per share - basic ($)	**0.00**	(0.00)	**0.03**	0.04
Earnings (loss) per share - diluted ($)	**0.00**	(0.00)	**0.03**	0.04

Share-based payments

The Company provides an equity settled stock option plan (the "Option Plan") for its directors, employees and consultants. Under the Option Plan, the Company may grant options for up to 10% of outstanding common shares at September 30, 2014. The term and vesting period of the options granted are determined at the discretion of the board of directors. The exercise price of each option granted equals the market price of the Company's stock immediately preceding the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as at September 30, 2014 and changes during the period then ended is presented as follows:

Stock options issued and outstanding:	Options (000s)	Weighted-average exercise price ($ per share)
Outstanding, December 31, 2012	10,240	0.58
Granted	5,268	1.05
Exercised	(161)	0.41
Forfeited	(869)	0.88
Outstanding, December 31, 2013	14,478	0.73
Granted	1,731	1.52
Exercised	(3,967)	0.60
Forfeited	(1,130)	0.76
Outstanding, September 30, 2014	11,113	0.90
Exercisable, September 30, 2014	1,650	0.58

The following table summarizes information about stock options outstanding at September 30, 2014:

Exercise price:	Stock options outstanding (000s)	Weighted-average remaining term (years)	Stock options exercisable (000s)	Weighted-average remaining term (years)
$0.38 - $0.90	5,508	1.2	830	2.3
$0.91 - $1.49	4,734	1.6	190	0.4
$1.50 - $1.97	872	2.2	630	0.0
	11,113	1.5	1,650	1.2

The Company records share-based payment expense over the vesting period, which ranges between one to three years, based on the fair value of the options granted to employees, directors and consultants. In the nine months ended September 30, 2014, the Company granted 1,731,000 stock options with an estimated fair value of $1.2 million or $0.70 per option using the Black-Scholes option pricing model with the following key assumptions (weighted-average):

Assumptions:	Nine months ended September 30, 2014
Exercise price ($)	1.52
Estimated volatility of underlying common shares (%)	77
Weighted average expected life (years)	2.4
Risk-free rate (%)	1.1
Forfeiture rate (%)	3.8
Expected dividend yield (%)	0.0

Estimated volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical daily share prices for a representative period.

9. FINANCIAL INSTRUMENTS

Financial instruments and fair value measurement

Financial instruments of the Company consist of cash and cash equivalents, restricted cash, trade and other receivables, investments, trade and other payables and bank debt. The carrying values of the financial instruments presented in the Financial Statements approximate their respective fair values due to their short-term to maturity. Financial assets and liabilities are only offset if Pine Cliff has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

Risks associated with financial assets and liabilities
The Company is exposed to a number of risks associated with its financial assets and liabilities. These risks include commodity price risk, interest rate risk, equity price risk, foreign exchange risk, credit risk and liquidity risk. The Company has several practices and policies in place to help mitigate these risks.

A description of the nature and extent of risks arising from Pine Cliff's financial assets and liabilities can be found in the 2013 Annual Financial Statements. The Company's exposure to these risks has not changed significantly since December 31, 2013.

10. SUBSEQUENT EVENTS

Credit facility
On October 1, 2014, Pine Cliff increased its borrowing base on its existing credit facility to $70.0 million. The current revolving period will end on May 31, 2015 and if the revolving demand credit facility is not renewed any amounts owing will become payable in full on demand.

Acquisition of Southern Alberta and Southern Saskatchewan natural gas assets
On October 1, 2014, Pine Cliff completed the acquisition of certain shallow natural gas assets in Alberta and Saskatchewan (the "Shallow Gas Assets"). The total consideration of $100.0 million, prior to any adjustments, was financed through a combination of working capital and bank debt. The purchase price allocation using the acquisition method for the Shallow Gas Assets is incomplete as of the date hereof.

Issuance of stock options
Subsequent to September 30, 2014, Pine Cliff granted 987,000 stock options to employees with a weighted average exercise price of $1.62, based on the market price immediately preceding the date of grant.

BOARD OF DIRECTORS

Gary J. Drummond
George F. Fink
Philip B. Hodge
Randy M. Jarock
Carl R. Jonsson

OFFICERS

George F. Fink
Executive Chairman of the Board

Philip B. Hodge
President and Chief Executive Officer

Robb D. Thompson
Chief Financial Officer and Secretary

Kristi L. Barr
Vice President, Finance

Terry L. McNeill
Vice President Operations

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REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

AUDITORS

Deloitte LLP
Calgary, Alberta

BANKERS

Alberta Treasury Branch
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: PNE

WEBSITE

www.pinecliffenergy.com

Pine Cliff Energy Ltd.